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SUBJECT: DANISH BANKING/INDUSTRIAL TITANS DOWNBEAT ON
MEDIUM-TERM ECONOMIC PROSPECTS

REF: COPENHAGEN 540 ("SAFETY NET" TO RESCUE TROUBLED
BANKS)

¶1. (SBU) At an October 27 dinner hosted by the Ambassador in honor of visiting Citi Chairman Sir Win Bischoff, Danish Central Bank Chairman Nils Bernstein was decidedly pessimistic in his assessment of Danish economic and banking sector prospects in the near-to-medium term. Speaking in an impromptu group discussion among the 34 dinner guests (a veritable who's-who of the Danish financial and corporate world), Bernstein predicted that 2009 and 2010 will be difficult years for Denmark, and he declined to guess when the Danish economy would rebound. Citi's Bischoff praised Denmark's relative banking sector stability and the quick action taken by the Danish government to devise one of the EU's first comprehensive bank deposit guarantee plans (reftel), which was approved by a broad parliamentary majority on October 10. In recent weeks, Bernstein's Central Bank has twice raised interest rates and has reportedly spent over USD 11 billion in an attempt to shore up the battered Danish Krone, which has fallen about 27 percent against the U.S. Dollar since early July.

¶2. (SBU) Other guests echoed Bernstein's bleak prognostication. Peter Staarup, CEO of Danske Bank, Denmark's largest financial institution, stated that the Danish banking sector would remain weak for at least the next year. He and Bischoff attempted without success to ferret information from Henrik Bjerre-Nielsen, head of Denmark's chief financial regulatory agency, about possible changes in the Danish government's approach to bank regulation in the wake of the recently-enacted bank "safety net" deposit guarantee scheme. Leading industrialist Steen Andersen sounded an ominous warning of impending "massive" job lay-offs in many sectors, particularly "traditional" manufacturing. As an example, he noted that two companies of which he is a board member are already making plans to lay off 10-12 percent of their respective labor forces and will likely cut more jobs in the coming months (we note that Denmark currently has a historically-low unemployment rate of about 3 percent). The lone note of optimism was voiced by Danfoss CFO Frederik Lotz, who opined that Danish companies would likely weather the economic doldrums better than firms in other countries. Denmark's small size and corresponding modest economic stature, Lotz observed, have long forced Danish companies to innovate and operate with maximum efficiency in order to compete in the global marketplace with larger and more powerful rivals.

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